

The climate in 2022

The science, the spectrum, and the ratchet

- ◆ Rhetoric must give way to policy, action and implementation as climate pledges are strengthened or brought forward
- ◆ Climate disclosures could come of age as businesses revise strategies and investors scrutinise for ambition and risk
- ◆ We think interest will grow in the understanding of scope 3 emissions, methane and whether carbon offsets really work

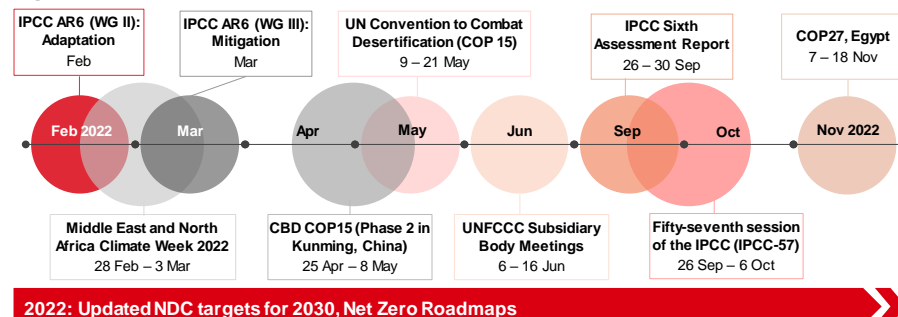
The end of the beginning: Although the climate spotlight may be a shade less bright in 2022, the curtain has not come down, there are many acts to go. Urgency will get another wake-up call from science, business and political leaders will have to start **living up to their net zero rhetoric**, and the collective pressure to strengthen climate pledges will slowly build – keeping up the momentum for COP27 in Egypt.

Response required: The “best available science” will be updated through the IPCC’s report on *Impacts* in February and *Mitigation* in March, followed by a *Synthesis* in September. Countries are supposed to “**revisit and strengthen**” their climate pledges before the end of 2022 so they can inch closer to the 1.5°C trajectory. But the question is: **who will blink first?** We think an updated pledge is required from both a developed and a developing country to defibrillate the process.

Show us what you’ve got: There will be tension, in our view, among regulators, corporates and investors as **climate disclosures** edge towards a new normal, and at times, be mandatory. The true usefulness of such disclosures remains in question, as statements may or may not reflect an effective change in business strategy. Investors will come under their own pressure to ‘invest in the transition’, finance resilience and contribute to mitigation as the **net zero spectrum** is difficult to interpret.

Three questions: With less politics to worry about in 2022, attention will turn to other issues such as: **how to reduce methane emissions**, **how to account for Scope 3 emissions**, and **how to assess the credibility of carbon offsets**. It’s not a wrap.

Figure 1: Climate milestones in 2022



Source: HSBC (based on IPCC and UNFCCC)

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Free to View Climate Change - Global



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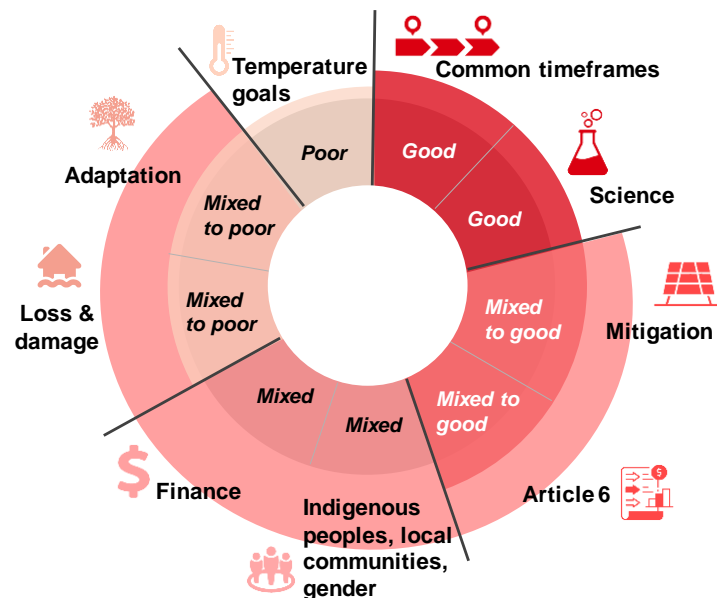
2021 in review

We think COP26 was a modest success – although we are still headed for 2.4°C

COP26 – Glasgow Climate Pact

COP26 in Glasgow was a modest success with a mix of compromise, disappointment and progress across many climate issues, in our view. Crucially, the Paris Rulebook (the operational guidelines of the Paris Agreement) was finalised, especially the key issues of Article 6 and common timeframes for climate pledges. The notable addition of “accelerate efforts towards the phasedown of unabated coal power and phase-out of efficient fossil fuel subsidies” in the final pact surprised many, despite the watered-down ambition. For climate finance, the missed USD100bn target is to be delivered by 2022/23 and a formal work programme has been set up to deliberate the new collective quantified goal. Adaptation finance is set to double in the near term but the lack of an agreed definition of climate finance may be a sticking point.

Figure 2: Our view on the outcomes of various issues discussed at COP26



Source: HSBC

Net zero and 1.5°C are all but the official climate targets globally

Outside of the UN negotiations, COP26 provided a platform for national discussions and announcements on reducing methane, ending deforestation, phasing out coal and transitioning to zero emissions vehicles. Some countries like India and Nigeria also announced their net zero emissions targets while some developed economies modestly scaled up their climate finance pledges. The US and China released the [Joint Glasgow Declaration on Enhancing Climate Action in the 2020s](#), 2 days before the end of the conference, to show their commitment to collaborate and work towards climate change.

Welcome climate science to centre stage

Science matters and science was updated in 2021

The UN's climate science body, the Intergovernmental Panel on Climate Change (IPCC), released the first of a series of reports as part of its sixth assessment cycle (AR6) in August. The IPCC reported that “**It is unequivocal that human influence has warmed the atmosphere, ocean and land**”, which would contribute to higher frequency and intensity of extreme climate events across all regions. The global surface temperature is rising with the greenhouse gas concentration. Unless deep reduction in GHG emissions in the coming decades, the Paris Agreement goals of limiting temperature rises to 1.5°C and 2°C will be exceeded this century.

Anushua Chowdhury, Payal Negi and Sanchit Sethi contributed to this report (all employed by a non-US affiliate of HSBC Securities (USA) Inc. and not registered/qualified pursuant to FINRA regulations).

Projected emissions are still far above the net zero trajectory for 2030

Climate pledges and the coming of age for net zero

The emissions trajectory for 2030 is for a 13.7% *increase* on 2010 levels. Although trimmed at COP26, this trajectory should be a 45% *decrease* in order to be on a 1.5°C pathway. The challenge in 2022 will be to bring even more ambitious 2030 targets to the table. According to *Climate Action Tracker*, over 140 countries, covering 90% of global emissions have net zero targets, as at 9 November 2021. The coverage has been increased by 27% from 2020. Notable new additions in 2021 include India, Australia and the UAE. **Making the pledges is the easy part, but delivering and implementing the policies is much more challenging**, in our view.

Corporate climate pledges

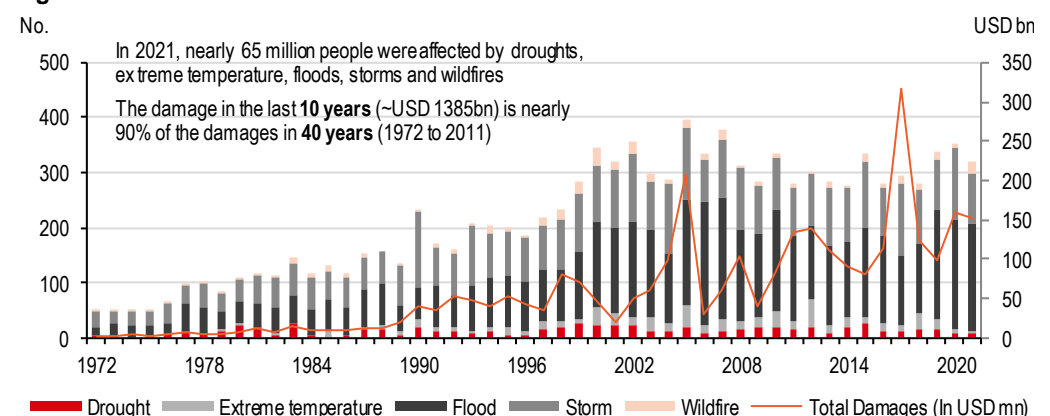
Businesses are not immune to climate pressures. Over 220 businesses declared net zero pledges in 2021, a notable increase from the prior year. There is going to be increased scrutiny in our view – from investors and civil society – on whether corporate pledges are credible, actually deliver real emissions declines, or amount to greenwashing.

State of the climate in 2021

Considering the onset of La Niña conditions early in the year, 2021 was relatively cooler than recent years, and is expected to be between the 5th and 7th warmest year on record. However, climate extremes continued to break long-standing records. July 2021 was declared as the hottest month to be ever recorded by NOAA¹. **Wildfires** in parts of Siberia, Turkey, and the United States produced record carbon emissions in 2021 according to the EU's Copernicus Atmosphere Monitoring Service. **Global sea level rise** and average **change in ocean heat** content since 1955 reached an all-time high. **Greenland** experienced its first ever rainfall at Summit Station, the highest point on the ice sheet. Western North America witnessed several heatwaves in the months of June and July, and Lytton, in south-central British Columbia, surpassed the Canadian national record by 4.6°C, reaching 49.6°C in June. Western Germany and eastern Belgium experienced **extreme flooding** causing over 200 deaths and economic losses of over USD20bn, in one of Western Europe's most severe flooding on record. The city of Zhengzhou received 201.9mm of rainfall in an hour, breaking a **Chinese national record**. Provisional data by EMDAT suggests that in 2021, some 65 million people were affected by climate disasters, and damages worth over USD150bn were incurred.

Extreme events of all kinds are becoming far too familiar in all regions

Figure 3: Climate-related disasters



Source: EMDAT

¹ <https://www.noaa.gov/news/its-official-july-2021-was-earths-hottest-month-on-record>

What to look out for in 2022

- ◆ After the science, COP27 will induce pressures to revise climate pledges, deliver on climate finance and raise the profile of adaptation
- ◆ Better understanding of net zero may emerge from analysis of more climate disclosures and we expect thoughtful discussion on Scope 3
- ◆ Carbon markets will rise in prominence as will carbon offsets, but we anticipate much debate on the credibility and quality of credits

IPCC AR6 – delayed but important science

Climate science will remain a focus in 2022

The UN's climate science body, the IPCC or Intergovernmental Panel on Climate Change, will continue publishing the remaining working group reports from the sixth assessment cycle (AR6) this year – delayed from 2021 because of the pandemic.

The first WG I: The Physical Science Basis was published on 9 August 2021. The final reports will consist of the following:

- ◆ WG II: Impacts, Adaptation and Vulnerability (February 2022)
- ◆ WG III: Mitigation of Climate Change (March 2022)
- ◆ AR6 Synthesis report (September 2022)

These will be important events in the climate calendar as they will further cement the role of science in: a) influencing government policy, b) highlighting the urgency of ambitious action. Science was formally “welcome” again at COP26 and “best available science” was dotted around the various UN decisions. This means that governments should (somehow) match the science with appropriate policy responses.

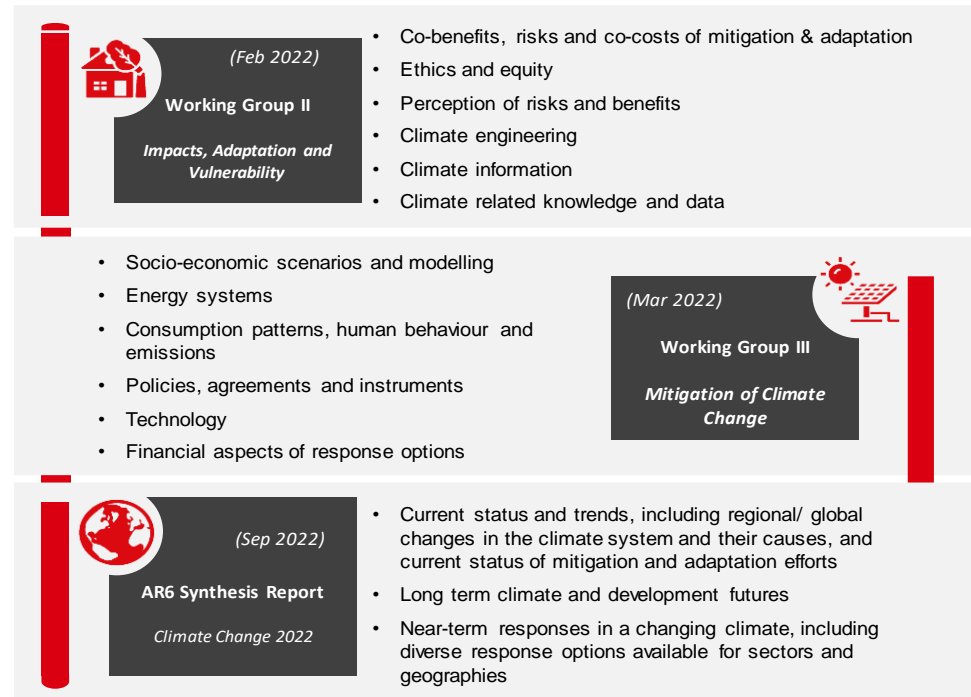
What to look out for from WG2 & 3 of AR6

Look out for more details on climate impacts, and what could be done to avoid it

Reports from the IPCC are full of information and run to hundreds of pages. There is always a shorter “summary for policymakers or SPM”. For the remaining (Working Group) reports, we think the key points to look out for will be:

1. What can be / needs to be done in terms of significant changes in human activities as well as the expected synergies and trade-offs.
2. More colour on the potential social and economic impacts by event, sector, region and the potential adaptation options.

The information contained in these points should guide governments as to the increased urgency of the issue. Investors may assess the speed of the transition and whether industries and geographies are well prepared or not for potential changes.

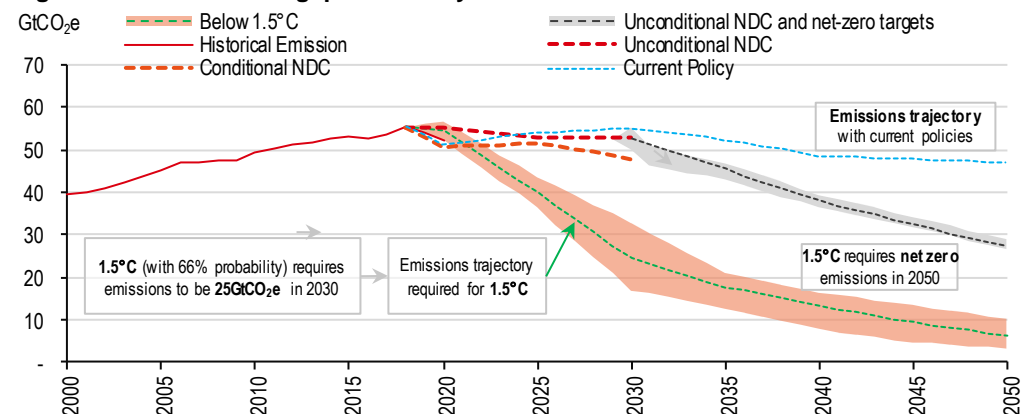
Figure 4: Outline of the remaining reports of the IPCC's AR6


Source: IPCC

COP27 (Egypt)

The 'ratchet' makes COP27 a key event in 2022

Egypt will host the next climate negotiations (COP27) from 7-18 November 2022. This climate summit will be important because countries were asked to revisit and strengthen climate pledges before the end of 2022 (or essentially before the start of COP27). In our view, this will be challenging because many countries underwent a round of "climate ambition raising" in 2021. The aggregate ambition of the 2021 round is still far off the mark for a 1.5°C trajectory hence the need to do so again in 2022.

Figure 5: The emissions gap is still very wide


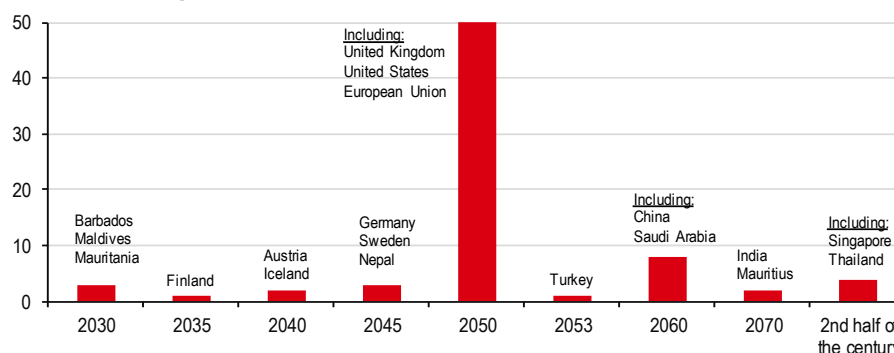
Source: Emissions Gap Report 2021, UNEP

Countries are requested to strengthen the 2030 targets in their NDCs by 2022

What it means to strengthen climate pledges

Many countries updated (mostly *upgraded*) their climate pledges ahead of COP26, formally known as nationally determined contributions (NDCs) as well as long-term mid-century strategies. The IPCC finds that net-zero emissions should be achieved by mid-century (2050) and just over four-fifths of national net-zero pledges meet this (2050) criterion. Those that are later than 2050 have the potential to bring their pledges forward – and this would count as strengthening a climate pledge.

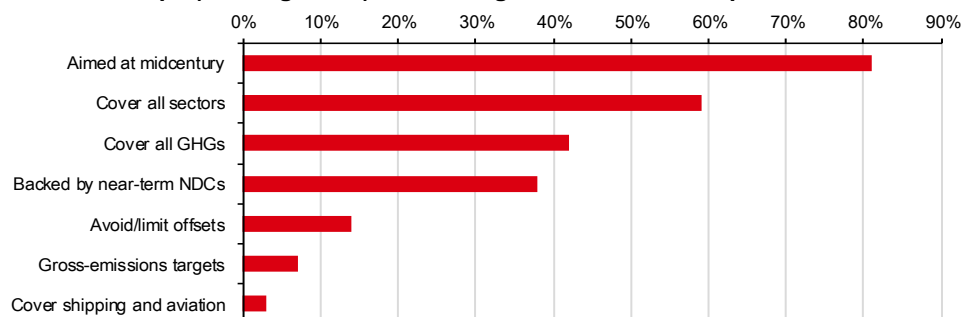
Figure 6: The timing of net zero is also important (earlier is better)



Note: total of 74 national pledges. (As at 18 Nov 2021)
Source: HSBC, World Resources Institute

In addition, there is potential for the *scope* of climate pledges (i.e. how much of the economy it covers) to be expanded over the next year into COP27. For instance, only two-fifths of pledges cover *all* GHGs and only 3% cover shipping and aviation. Furthermore, the use of carbon offsets is only addressed by 14% of pledges, another area for potential development in 2022.

Figure 7: The scope (coverage area) of zero targets has room for expansion



Note: Includes the 74 net-zero national targets. (As at 18 Nov 2021)
Source: HSBC, World Resources Institute, Climate Watch 2021

Adaptation is likely to be a major focus at COP27

Adaptation and other issues ahead of COP27

We think **adaptation** will be a major focus at COP27 because of its importance to many countries in Africa. Countries have already been asked to provide more information on adaptation before the COP27 meeting so that it can feed into an aggregate report of how well adaptation is being addressed. The **Glasgow–Sharm el-Sheikh work programme** on the **global goal on adaptation** has already begun but will hit full speed in 2022 as it seeks to enhance understanding, determine methodologies and information required as well as enhance planning and implementation.

Other issues over 2022 include the information collection process for the inputs to the **Global Stocktake** (COP28) which will begin next year. Advances in **Non-market Approaches** (Article 6.8) will take place in 2022 with a ‘views and information’ synthesis to be published in June.

Climate finance will remain high on the agenda in 2022 as developed countries will try to meet the (missed 2020) target of USD100bn in 2022. At COP27 itself, the work programme on setting a **new collective quantified finance goal** will be closely watched.

The **International Labour Organisation** (ILO) will explore “linkages between gender-responsive climate action and just transition” and produce a technical paper by end March 2022.

Source: HSBC

Climate disclosures

More requirements on climate disclosures are expected in 2022

Various jurisdictions around the world will enhance climate disclosures in 2022, with most aligning to the Taskforce on Climate-related Financial Disclosures (TCFD).

Figure 10: Upcoming climate disclosures rules across markets



Source: HSBC (based on SEC, CSA, FCA, Japan, SFC, Singapore stock exchange, FCA UK)

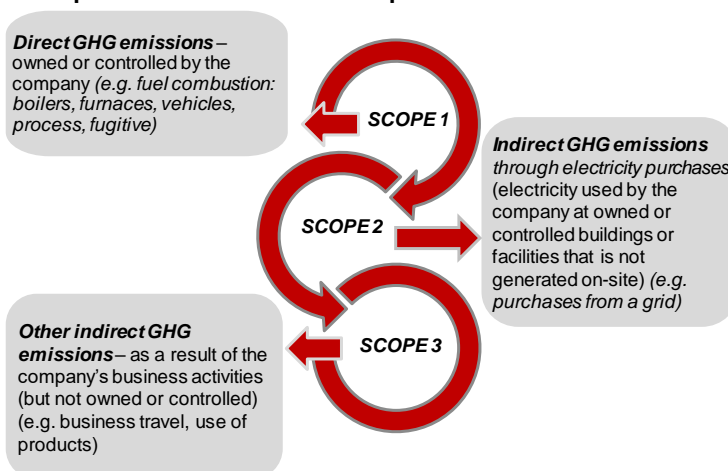
The challenge of Scope 3 emissions

To recap, there are three scopes of emissions data defined for GHG accounting and reporting purposes by the GHG Protocol:

- ◆ **Scope 1 - Direct emissions:** Represent all direct emissions from the sources under the reporting company's control or ownership.
- ◆ **Scope 2 - Energy-related indirect emissions:** Cover all indirect emissions from purchased electricity, steam, heating and cooling used by reporting companies.
- ◆ **Scope 3 - Other indirect emissions:** includes all indirect emission (other than scope 2 emissions) from sources not owned or controlled by the reporting company. The GHG Protocol categorises scope 3 emissions into 15 distinct categories. Corporates are able to select categories based on its operations thus the boundary of scope 3 emissions differs across industries and companies.

Thus, most companies have tended to report on their Scope 1 and 2 emissions – those which they can control. However, there is increased scrutiny over Scope 3 emissions – those outside of direct control but over which businesses have varying degrees of influence.

Figure 11: The scopes of carbon emissions depend on influence and control



Source: HSBC (based on GHG accounting protocol)

Scope 3 emissions often contribute the lion's share of total GHG emissions

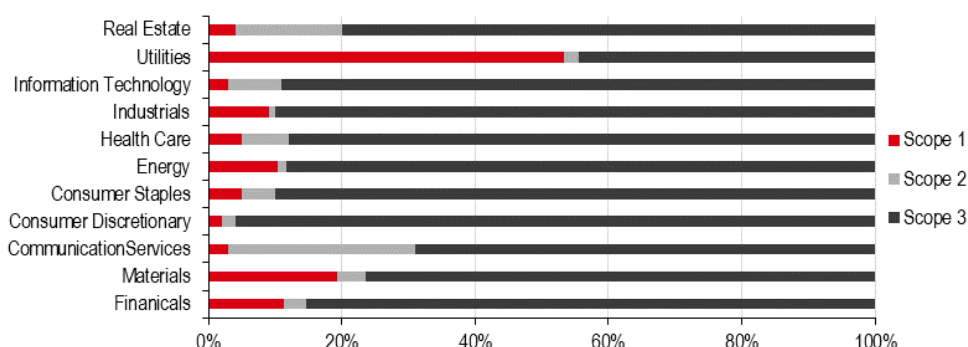
Why scope 3 is important

Investors are analysing corporate emission reduction targets and net zero strategies much more closely as they need to know the full climate exposure of their own portfolios.

Hidden contributions: Scope 3 emissions sometimes comprise the greatest share of corporate GHG emissions. For example, consider the energy sector: the scope 1 and 2 emissions of an oil company are only a small proportion of its total emissions, whereas its products contribute the most significant emissions once consumed.

Scope 3 emissions are convenient for businesses to ignore as “someone else’s problem” or not try to tackle them as they have “no influence or control” over them. Whilst this may be true for some industries and countries, there is a wide range of influence that should not be ignored, in our opinion. We think accounting for scope 3 emissions and including them in reduction plans is an important piece of the climate jigsaw otherwise they may become “unchecked” emissions.

Figure 12: Emissions breakdown of companies in S&P Global 1200 index by sector

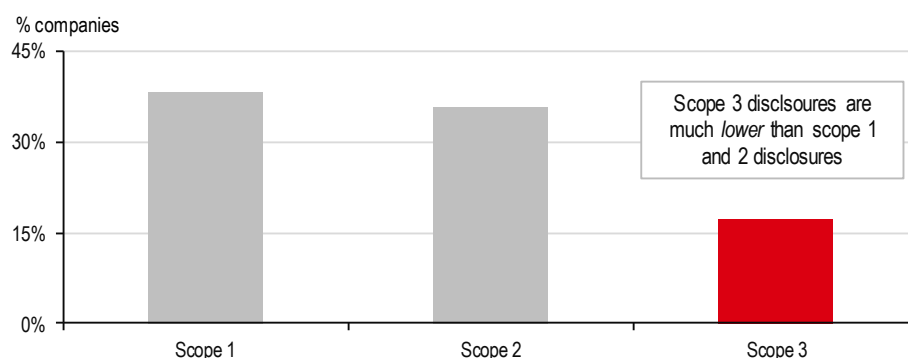


Source: S&P Global, HSBC

The degree of control over scope 3 emissions varies with sectors

Sector variance: the degree of control or influence over scope 3 emissions varies with sectors. For **raw material suppliers** such as iron ore miners, they **have limited power to influence their downstream emissions** i.e. steelmaking, transportation and use. This may be complicated by the fact that most steelmaking takes place in China, over which the iron ore suppliers realistically have no control. However, for other sectors, such as the top of the technology supply chain – there can be more influence on both upstream suppliers as well as downstream retailers and consumers.

Figure 13: Disclosure of Scope 3 emissions lags other emission scopes



Note: For the top 2,000 largest publicly-traded companies in the world by revenue. Around another 8% of the companies have partial Scope 3 coverage
 Source: Net Zero Tracker

Regulators are taking an interest in scope 3 emissions for banks and insurance....

Growing scrutiny: some central banks such as the People’s Bank of China and the European Central Bank have already started including scope 3 emissions (portfolio/investment emissions) in various climate risk stress tests. As membership of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) grows, we believe there will be more climate stress testing and more potential to consider scope 3 emissions.

... and requiring scope 3 emissions disclosure

Tightening regulations: Despite the optionality of scope 3 emissions disclosure in most of the existing rules, there are strong signs that this could change in the near future. For example, in December 2021, the **Singapore Exchange** updated its listing rules, stating: "issuers should disclose their Scope 1 and Scope 2 GHG emissions, with Scope 3 GHG emissions to also be disclosed, if appropriate." The **US Securities and Exchange Commission** is considering to include scope 3 emissions in its highly-anticipated climate disclosure rule, which is expected to be unveiled in 2022.

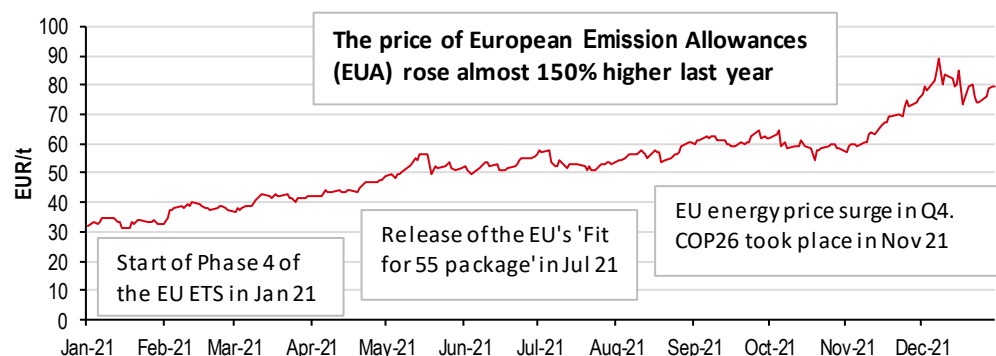
Disclosure has begun: In July 2021, in landmark ruling, a Dutch court ordered Royal Dutch Shell to include scope 3 emissions in its reduction target. In our view, scope 3 emissions disclosures might require a phased approach due to complicated accounting methodologies. We expect companies (and investors) to increase their consideration of scope 3 emissions significantly in 2022.

Carbon pricing in 2022

Interest in carbon markets will be strong in 2022, especially after the rise in carbon prices on the EU ETS last year and the successful completion of the *rules, modalities and procedures of Article 6* of the Paris Agreement at COP26.

The carbon price of the EU ETS surged c150% through 2021

Figure 14: Price of European Emission Allowance in 2021



Source: Refinitiv (as at 30 December 2021)

Carbon trading markets fall into 3 main categories

Carbon markets: There are essentially three types of carbon trading market, each serving a different **segment** (countries, companies), a different **boundary** (global, national) as well as a different **purpose** (compliance or otherwise).

Figure 15: The three main types of carbon trading market



Source: HSBC

The Article 6.4 and compliance markets will develop according to their own operating rules. However, the **voluntary markets are largely unregulated** and are based on trust and verification as a foundation towards credibility.

Growing demand for carbon offsets: With the rapid growth in net zero pledges at a corporate level, there will be a commensurate growth in demand for carbon credits/offsets.

Box 1: Carbon offsets

Reducing emissions means emitting less but there are absolute and relative reductions. An *absolute* reduction involves emitting less than before but it is still contributing to an increase in GHGs. A *relative* reduction involves emitting less than a benchmark or baseline growth.

Withholding (or zero) emissions means not putting any GHGs into the atmosphere – zero emissions is possible but generally difficult to achieve over the entire life cycle of an activity.

Removing emissions means actively reducing the atmospheric concentration of GHGs by either natural or man-made means. However, the key here is to ensure that the removed emissions never reach the atmosphere – even in the future.

Avoiding emissions is where a change in activity (planned or actual) may result in certain emissions not being produced i.e. avoided. This is a controversial area with debate ongoing under the UN climate process. For example, whether emissions avoidance can be included as Article 6 activities is still under consideration.

Carbon credits/offsets should avoid “carbon laundering”

The credibility of carbon offsets can be examined by OMGE, climate integrity and permanence

Carbon credibility: With the rise of carbon trading, and especially those of carbon credits/offsets, there is growing concern over credibility of the offsets. For example, offsets with dubious scientific basis, monitoring and accounting could be considered “carbon laundering” – passing off a carbon offset as an actual reduction when it cannot be sufficiently demonstrated and may actually cause an increase in global emissions.

There are multiple issues to consider when looking at carbon offsets. For example:

- ◆ **OMGE** (overall mitigation of global emissions) – whether an activity genuinely results in a reduction in the level of GHGs in the atmosphere globally, and does not merely shift the emissions elsewhere (known as ‘carbon leakage’), or is inappropriately accounted for etc.
- ◆ **Climate integrity** – the appropriate scientific basis for ascertaining how much carbon is actually removed by an activity. This can be very challenging and requires estimation, monitoring and transparency. E.g. the rate of carbon absorption of trees.
- ◆ **Permanence** – ensuring that the emissions reduction lasts for at least 100 years and cannot be undone, e.g. by a forest fire.

As companies and investors seek to use carbon credits/offsets to meet their targets (climate or financial), we think there will be increased awareness and scrutiny of the process. 2022 should see the global discussion advance alongside scrutiny of corporate net zero strategies. We also anticipate continued discussion on carbon removal technology such as direct air capture (DAC).

Upcoming carbon pricing schemes in 2022

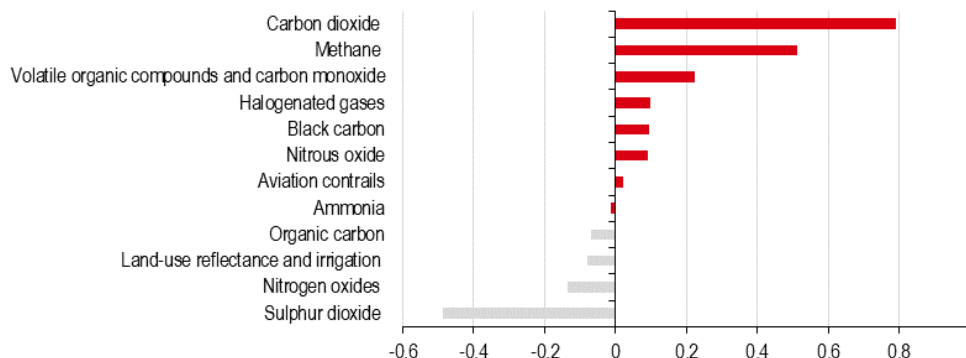
- ◆ **Austria** has proposed a carbon tax of EUR30/tCO₂ to be implemented in July 2022 which will rise to EUR55/tCO₂ in 2025.
- ◆ **Indonesia** has announced introduction of carbon tax for the coal-fired power stations in April which could eventually be expanded to cover all sectors.
- ◆ **Russia** is expected to launch its carbon trading pilot in July 2022 in Sakhalin as part of the ‘Roadmap for the implementation of an experiment to establish special regulation of greenhouse gas emissions in the Sakhalin Region’ (adopted in January 2021).
- ◆ **Malaysia** has planned the development of a single domestic carbon trading platform to be implemented in phases from end of 2022, beginning with voluntary offset trade, and roll-out of an ETS at a later stage.
- ◆ **Shenyang, China** is developing regulations for the launch of carbon market in 2022 for around 500 participants in sectors not covered by the national ETS.

Methane (CH₄) emissions

Methane is the second largest contributor to the global warming

We expect much more awareness of methane emissions in 2022. The IPCC WG1 report of August 2021 further raised the profile of methane emissions and the potential benefits of reducing this relatively short-lived greenhouse gas.

Figure 16: Contribution to 2010 – 2019 warming relative to 1850-1900



Source: IPCC AR6 (WG1), HSBC

Countries are set to focus more on methane reduction

Global Methane Pledge launched ahead of COP26 aims to reduce methane emissions at least 30% from 2020 levels by 2030. Over 100 countries, covering nearly 50% of global methane emissions have signed the pledge. This could mean that more countries introduce methane-related policies in 2022.

- ◆ The **US** has already released its methane emissions reduction action plan. The Methane Emissions Reduction Act of 2021 has been tabled in the Senate, with debate and voting expected in 2022. Additionally, the proposal on charging a fee on methane emissions from oil and gas operators is included in the draft text of the Build Back Better Act which is to be voted on by the senate in 2022.
- ◆ The **EU** proposed new regulations on reducing methane emissions in the energy sector to the Parliament in December 2021. It requires the sector to measure, report and verify the methane emissions, and to limit venting and flaring. A series of talks and debates between member states and the Parliament is expected in 2022 before the regulation is legislated.
- ◆ **China** announced its intention to develop a methane reduction action plan which will include regulations on energy and waste management sector, despite its absence in the global methane pledge. The exact timeline of the action plan is unclear but we expect more details would be unveiled in 2022.
- ◆ **Nigeria** (a top-10 methane emitter) committed to zero gas flaring by 2030 and 69% reduction in fugitive methane emissions by 2031 in its NDC. The minister for environment of Nigeria said the government would address gas flaring to show its commitment to net zero.

Corporate and investor attention should turn towards methane reduction strategies and opportunities in 2022, in our view. Out of the “big 3” – energy, waste, agriculture – we think the initial focus will be on the energy sector, particularly oil & gas.

Development of other initiatives

Various climate initiatives (some big, some small) will release more details in 2022

- ◆ The **Breakthrough Agenda** which is an international clean technology plan to strengthen international cooperation for limiting emissions in the high emitting sectors, will have its first annual global checkpoint process in 2022. The four priorities include: a report on the state of transition (Q1/Q2), convening leading initiatives in each sector (Q1/Q2), Ministerial discussions on the findings of the state of transition alongside the Mission Innovation and Clean Energy Ministerial meetings that is hosted by the US (Q3), and encouraging new and enhanced commitments from existing and new participating countries (Q4).

- ◆ A group of over 30 countries including Italy, US, and Canada and 5 public finance institutions will **end international public support for the unabated fossil fuel energy** sector, except in “*limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement*”, by the end of 2022.
- ◆ The Steering Committee of the **Taskforce on Access to Climate Finance** will meet in January 2022 to discuss the implementation phase in the five identified Pioneer Countries, Bangladesh, Fiji, Jamaica, Rwanda and Uganda.
- ◆ The **Net Zero Industries Mission and the Biorefineries Mission**, which aims to unlock emissions reduction, and make bio-based alternatives cost-competitive, for the three heavy industries- steel, cement, and chemicals, will be releasing more detailed information in 2022.
- ◆ The IMF’s **Resilience and Sustainability Trust (RST)** with a target size of USD30bn aimed at providing low-interest rate long-term finance to low-income and vulnerable middle-income countries, will become operational by Autumn 2022.

The global climate calendar: upcoming events

2022	Location	Event
14-18 February	TBD	Approval session for Working group II, IPCC AR6
17-18 February	Virtual	The 6th International Conference on Climate Change 2022
28 February–3 March	United Arab Emirates	Regional Climate Week for the Middle East and North Africa
21-25 March	TBD	Approval session for Working group III, IPCC AR6
7-8 April	Vancouver, Canada	14 th International conference on Climate change: Impacts & Responses
25 April -08 May	Kunming, Yunnan, China	UN Biodiversity Conference: Part II
9-21 May	Côte d'Ivoire	United Nations Convention to Combat Desertification (UNCCD) COP 15
6-16 June	Bonn, German	UNFCCC Subsidiary Body Meetings
26-30 September	TBD	Synthesis report, IPCC AR6
26 September–6 October	Geneva, Switzerland	Fifty-seventh session of the IPCC (IPCC-57)
7-18 November	Sharm el-Sheikh, Egypt	UNFCCC COP 27

Source: HSBC

Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

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